

**STATE BOARD OF EQUALIZATION
FISCAL YEAR 2005-06
FINANCE LETTER NO. 3**

TITLE OF PROPOSED CHANGE:

REVISED ALTERNATIVE CIGARETTE TAX STAMP PROJECT

SUMMARY OF PROPOSED CHANGES:

The State Board of Equalization is submitting this proposal to address the reduction of the Alternative Cigarette Tax Stamp (ACTS) Project cost originally identified in the FY 2004-05 May Revision, Finance Letter No. 2 (ACTS Project) dated April 13, 2004. The following are the cost reductions identified:

1. -\$1,946,000 in FY 2004-05 (-\$224,000 General Fund, -\$45,000 Breast Cancer Fund, -\$559,000 Cigarette and Tobacco Products Surtax Fund, and -\$1,118,000 California Children and Families First Trust Fund).
2. -\$4,495,000 in FY 2005-06 and ongoing (-\$516,000 General Fund, -\$103,000 Breast Cancer Fund, -\$1,292,000 Cigarette and Tobacco Products Surtax Fund, and -\$2,584,000 California Children and Families First Trust Fund).

Even with the reduction, the ACTS Project will protect the existing tax base and increase tax revenue by \$8,218,630 in FY 2004-05 and \$28,178,160 in FY 2005-06. Therefore, this proposal estimates a benefit-to-cost ratio of 5.3 to 1 beginning in FY 2005-06.

FISCAL IMPACT:

	Appropriation No.			Dollars (in Thousands)		
	(Org)	(Ref)	(Fund)	Past Year	Current Year	Budget Year
Existing Program:	0860	001	0001	\$ 4,082	\$ 3,936	\$ 3,936
	0860	001	0004	\$ 124	\$ 124	\$ 124
	0860	001	0230	\$ 1,892	\$ 1,901	\$ 1,901
	0860	001	0623	\$ 1,674	\$ 1,670	\$ 1,670
Reimbursements	0860	501	0995	\$ ---	\$ ---	\$ ---
	TOTAL			\$ 7,772	\$ 7,631	\$ 7,631
Positions				74.4	71.5	71.5
Personnel Years				71.5	68.7	68.7
Proposed Changes:	0860	001	0001	\$	\$ -224	\$ -516
(by appropriation)	0860	001	0004	\$	\$ -45	\$ -103
	0860	001	0230	\$	\$ -559	\$ -1,292
	0860	001	0623	\$	\$ -1,118	\$ -2,584
Reimbursements	0860	501	0995	\$	\$ ---	\$ ---
	TOTAL			\$	\$ -1,946	\$ -4,495
Positions					---	---
Personnel Years					---	---

For EDP requests, include date Special Project Report (SPR) or Feasibility Study Report (FSR), approved _____.

State Board of Equalization

Cigarette and Tobacco Products Surtax Program

REVISED ALTERNATIVE CIGARETTE TAX STAMP PROJECT

Fiscal Year 2005-06

A. Nature of Request

The State Board of Equalization (BOE) submits this proposal to address the reduction of the Alternative Cigarette Tax Stamp (ACTS) Project cost originally identified in the Fiscal Year (FY) 2004-05 May Revision, Finance Letter No. 2 (ACTS Project) dated April 13, 2004. The most significant changes in the ACTS Project are the following:

1. Decrease in the total program budget:
 - -\$1,946,000 in FY 2004-05.
 - -\$4,495,000 in FY 2005-06 and ongoing.
2. Delay in Project implementation from January 1, 2005 until April 8, 2005, due to a delay in executing the contract with SICPA, the successful bidder. This delay occurred as a result of a bid protest and resulting court action. Because of the litigation, the licensed cigarette distributors (LCDs) were reluctant to sign long-term equipment leases with SICPA for the stamp application machinery. At the same time, SICPA was reluctant to manufacture the machinery.
3. Delay in implementation of the Stamp Transaction System (STS) from February 14, 2005 until April 8, 2005. SICPA and IBM have dissolved their business relationship. IBM, a subcontractor, was to develop the electronic exchange of data between the BOE, SICPA and Meyercord Revenue (a second subcontractor). IBM was also to develop the database that would contain the information encrypted on each stamp. SICPA will now be taking over these responsibilities from IBM.

B. Background/History

Senate Bill 1701 (Peace) (Chapter 881, Statutes of 2002) mandated that the Board of Equalization (BOE) seek to minimize the revenue lost due to cigarette and tobacco tax evasion activity by requiring a form of cigarette tax stamp that contains encrypted data capable of being read using a scanning or similar device. The legislation required that the new stamp be in place by January 1, 2005.

On December 2, 2002, the BOE submitted a Feasibility Study Report (FSR) for approval to undertake the ACTS Project to implement the legislative mandate. The FSR was approved by the Department of Finance (DOF) on December 10, 2002. Since the Fall of 2002, BOE worked with other state and federal agency representatives to discuss current encryption techniques and to identify what current anti-counterfeiting techniques would be effective in stamp requirements. From those meetings, BOE and the Department of General Services

B. Background/History (Continued)

(DGS) documented specific program and technical requirements for a formal vendor bid. In December 2003, DGS initiated an Invitation for Bid (IFB) process to select a vendor. The outcome resulted in one non-responsive bid and one bid that, while responsive, exceeded the Project budget limitations. As a result, the procurement was cancelled. BOE submitted a Finance Letter requesting an augmentation of \$4,904,000 in FY 2004-05 and \$9,808,000 in FY 2005-06 and ongoing fiscal years to address the increased cost of the stamp. At the same time, BOE submitted a Special Project Report (SPR 1), approved in a letter dated June 24, 2004, to address the increased Project costs. The Total Project costs approved in SPR 1 was \$29,719,544.

With the approval of the Finance Letter and SPR 1 (ATTACHMENT 1), a second IFB procurement was initiated. Three vendors responded to the IFB. Two bids (Standard Register and KPMG) were found to be non-responsive. The third vendor, SICPA, responded with two separate bids. Both bids were found to be responsive, and the lower bid was accepted. A contract was awarded on August 9, 2004. SICPA was the prime contractor for this project and was also responsible for development of the encrypted stamp. Meyercord Revenue, Inc. (Meyercord), a subcontractor to SICPA, is responsible for the production of the stamp and the manufacture and installation of the stamp application equipment. IBM, also a SICPA subcontractor, is responsible to develop the STS, the data management system for the encrypted stamp information. SICPA will now be taking over IBM's responsibilities.

With the award of the contract to SICPA, Standard Register filed a lawsuit. Because of the litigation, licensed cigarette distributors (LCDs) were reluctant to sign long-term equipment leases with SICPA for the stamp application machinery. At the same time, SICPA was reluctant to manufacture the machinery.

SPR #2 was submitted to the Department of Finance on November 19, 2004 to address the delay in schedule based on the SICPA/LCD situation, the decrease in the cost of the Project, and minor scope adjustments.

C. State Level Consideration

This proposal is consistent with BOE's Strategic Plan, Issue II – Modernizing Tax Compliance Practices, Strategy 4 – “Pursue changes to the tax laws to make them more relevant to current and evolving business practices.”

D. Justification/Analysis of All Feasible Alternatives

Alternative 1 – Reduce the total project cost by \$1,946,000 for FY 2004-05 and by \$4,495,000 for FY 2005-06 and ongoing. The projected savings is based primarily on the net of the reduction in the cost of the SICPA contract services and increases in the STS development costs and the Bank of America (B of A) contract costs.

D. Justification/Analysis of All Feasible Alternatives (Continued)
Alternative 1 (Continued)

Pros:

- Savings of \$1,946,000 (FY 2004-05).
- Savings of \$4,495,000 (FY 2005-06 and ongoing).

	<u>FY 2004-05</u>	<u>FY 2005-06 & Ongoing</u>
Approved Funding Level	\$4,904,000	\$9,808,000
Less Cost Reduction	<u>1,946,000</u>	<u>4,495,000</u>
Total Revised Funding Level	<u>\$2,958,000</u>	<u>\$5,313,000</u>

- Estimated increase in revenue for FY 2004-05 – \$8,218,630
- Estimated increase in revenue for FY 2005-06 and ongoing – \$28,178,160

Fiscal Year	Breast Cancer Fund	Cigarette and Tobacco Surtax Fund	CA Children and Families First Trust Fund	General Fund (Excise Tax)	State Sales Tax	Local Tax	STJ-Special Taxing Jurisdiction	Total Revenue
FY 2004-05	\$159,833	\$1,997,917	\$ 3,995,833	\$ 799,167	\$ 839,125	\$ 319,667	\$107,088	\$ 8,218,630*
FY 2005-06	\$548,000	\$6,850,000	\$13,700,000	\$2,740,000	\$2,877,000	\$1,096,000	\$367,160	\$28,178,160

Note: Total General Fund equates to \$1,598,334 in FY 2004-05 and \$5,480,000 in FY 2005-06.

*Estimated revenue takes into account delay in project implementation.

- Estimated benefit-to-cost ratio is 5.3 to 1.

Cons:

- Reduced flexibility to address any future Project changes.

E. Timetable

Original completion of implementation/production phase of project has been delayed until April 8, 2005 due to contract award protest/litigation. This has resulted in a compressed schedule and need to create a phased implementation plan for the manufacturing and installation of stamp application equipment.

F. Recommendation

It is recommended that Alternative 1 be approved.

G. Fiscal Detail

See attached "Fiscal Detail" schedules.

FINANCE LETTER
FISCAL DETAIL
FISCAL YEAR 2005-06
(\$ in Thousands)

Title of Proposed Change: Revised Alternative Cigarette Tax Stamp Project

Program/Element/Component: 45 Cigarette and Tobacco Products Tax Program
45.30 Auditing Accounts/45.40 Enforcement Activities

	Personnel Years		Current Year	Budget Year
	CY	BY		
TOTAL SALARIES AND WAGES				
Salary Savings				
NET TOTAL SALARIES AND WAGES				
Staff Benefits				
TOTAL PERSONAL SERVICES				

OPERATING EXPENSE AND EQUIPMENT

General Expense		
Printing		
Communications		
Postage		
Travel--In-State		
Travel--Out-of -State		
Training		
Facilities Operations		
Consulting & Professional Services: Interdepartmental		
Consulting & Professional Services: External	-1,946	-4,495
Stephen P. Teale Data Center		
Data Processing		
Equipment		
Other Items of Expense: (Specify Below)		

Finance Letter No. 3

	<u>Current Year</u>	<u>Budget Year</u>
TOTAL OPERATING EXPENSE AND EQUIPMENT	<u>-\$1,946</u>	<u>-\$4,495</u>
TOTAL EXPENDITURES (State Operations)	<u>-\$1,946</u>	<u>-\$4,495</u>

Source of Funds

General Fund	(0001)	-\$224	-\$516
Special Funds:			
Breast Cancer Fund	(0004)	-45	-103
State Emergency Telephone	(0022)		
Propane Surcharge Fund	(0051)		
Motor Vehicle Fuel	(0061)		
Occupational Lead Prevention Fund	(0070)		
Childhood Lead Poisoning Prev. Fund	(0080)		
Cig. and Tobacco Prod. Surtax Fund	(0230)	-559	-1,292
Oil Spill Prevention and Admin. Fund	(0320)		
Integrated Waste Management	(0387)		
Underground Storage Tank Fund	(0439)		
Energy Resources Programs Account	(0465)		
CA. Children and Families First Trust Fund	(0623)	-\$1,118	-\$2,584
Timber Tax Fund	(0965)		
Gas Consumption Fund	(3015)		

Federal Funds

Other Funds

Reimbursements (0995)

SUMMARY OF PROPOSED CHANGES

	<u>Current Year</u> (\$ in Thousands)	<u>Budget Year</u> (\$ in Thousands)	<u>Budget Year + One</u> (\$ in Thousands)
Proposed Equipment:			
N/A			
Total			
Proposed Contracts:			
Consulting and Professional Services - External Cigarette Tax Stamps Contract	-\$1,946	-\$4,495	-\$4,495
Total	-\$1,946	-\$4,495	-\$4,495
One-Time Costs:			
N/A			
Total			
Future Savings:			
Consulting and Professional Services - External Cigarette Tax Stamps Contract	\$1,946	\$4,495	\$4,495
Total	\$1,946	\$4,495	\$4,495
Full-Year Cost Adjustments:			
N/A			
Total			



STATE OF CALIFORNIA

STATE BOARD OF EQUALIZATION

450 N STREET, SACRAMENTO, CALIFORNIA
PO BOX 942879, SACRAMENTO, CALIFORNIA 94279-0073
916-327-4975 • FAX 916-324-2586
www.boe.ca.gov

CAROLE MIGDEN
First District, San Francisco

BILL LEONARD
Second District, Ontario

CLAUDE PARRISH
Third District, Long Beach

JOHN CHIANG
Fourth District, Los Angeles

STEVE WESTLY
State Controller, Sacramento

RAMON J. HIRSIG
Executive Director

May 4, 2004

Ms. Kathy Hanson
Department of Finance
Technology Investment Review Unit
915 L Street
Sacramento, California 95814

Dear Ms. Hanson:

Subject: Special Project Report for the Alternative Cigarette Tax Stamp Project – No. 0860-86

I am submitting the attached Special Project Report (SPR) in support of our request for the Department of Finance's approval to continue development of this project.

I certify that the SPR was prepared in accordance with the State Administrative Manual Sections 4945-4945.2 and that the proposed project changes are consistent with our information management strategy as expressed in our current Information Management Strategic Plan.

I have reviewed and agree with the information in the attached SPR. Please contact Caroline Cabias, at (916) 322-3320 if additional information regarding this SPR is needed.

Sincerely,

Ramon J. Hirsig
Executive Director

RH:hm

Enclosure

cc: Mr. Timothy W. Boyer, BOE
Mr. David Gau, BOE
Ms. Margaret Shedd, BOE
Ms. Raye Zentner, BOE

Mr. Dennis Maciel, BOE
Ms. Barbara McCrory, BOE
Ms. Carol Fieldhouse, BOE
Ms. Marcia Davey, BOE

bcc: Dade Powers
Monte Williams
Rebecca Stone
Bob Sherburne
Caroline Cabias
Janis Arredondo
Bill Kimsey
Brian Ishimaru
James Hutchinson
Mike Dendorfer
Cristina Herrera
Rene Gutierrez
Javier Garcia
John Hamlin

STATE BOARD OF EQUALIZATION

SPECIAL PROJECT REPORT

ALTERNATIVE CIGARETTE TAX STAMP PROJECT
(PROJECT NUMBER 0860-86)

May 2004

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Information Technology Project Request

Special Project Report Executive Approval Transmittal



Department Name

Board of Equalization

Project Title (maximum of 75 characters)

Project
Acronym

Alternative Cigarette Tax Stamp Project

ACTS

FSR Project ID

FSR Approval
Date

Department
Priority

Agency Priority

0860-86

12-10-02

3

3

APPROVAL SIGNATURES

I am submitting the attached Special Project Report (SPR) in support of our request for the Department of Finance's approval to continue development and/or implementation of this project.

I certify that the SPR was prepared in accordance with the State Administrative Manual Sections 4945-4945.2 and that the proposed project changes are consistent with our information management strategy as expressed in our current Information Management Strategic Plan.

I have reviewed and agree with the information in the attached SPR.

Chief Information Officer

Date Signed

Carol Fieldhouse

5/4/04

Printed name: Carol Fieldhouse

Budget Officer

Date Signed

Rene Gutierrez

5-04-04

Printed name: Rene Gutierrez

Deputy Director

Date Signed

David Gau

5-04-04

Printed name: David Gau

Executive Director

Date Signed

Ramon Hirsig

5-04-04

Printed name: Ramon Hirsig

INFORMATION TECHNOLOGY PROJECT SUMMARY PACKAGE SECTION A: EXECUTIVE SUMMARY

1. Submittal Date	5/4/04
-------------------	--------

2. TYPE OF DOCUMENT	FSR	SFR	PSP Only	Other:
		X		
PROJECT NUMBER	0860-86			

3. Project Title	Alternative Cigarette Tax Stamp Project		Estimated Project Dates
Project Acronym	ACTS	7/15/01	End 12/31/2004
SUBMITTING DEPARTMENT	State Board of Equalization		
4. Reporting Agency	n/a		

6. Project Objective	Implement the provisions of SB 1701 (Chapter 881, Statutes of 2002) Develop a secure and counterfeit-proof stamp as required by law Implement a more cost-effective method of distributing stamps
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8.	Major Milestones	Status/Estimated Completion Date
	Concept	Completed
	Stamp System Procurement	6/30/04
	Project Management Planning	6/30/04
	Training/Public Relations	12/6/04
	Stamp Transaction System	12/31/04
	Implementation/Production	12/31/04
	Maintenance	12/31/05
	Key Deliverables	
	FSR	Completed
	Requirements/Procurement Documents	5/14/04
	Project Plans	6/30/04
	Training Plan/Program Change Notification	12/6/04
	Constructed, Tested, and Implemented System	12/3/04
	Implementation Plan and System Test Results	12/31/04
	Lessons Learned and PIER	9/15/05

7. Proposed Solution	The BOE will solicit proposals from interested parties to develop a new technology that will replace the current cigarette tax stamp and meter impressions. Further, BOE will implement a more cost-effective means of distributing the stamps. To meet BOE's business objectives and align with the current strategic direction, the project will develop and test a new stamp and a selling/accounting system to ensure increased security and delivery to cigarette distributors.
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INFORMATION TECHNOLOGY PROJECT SUMMARY PACKAGE

SECTION B: PROJECT CONTACTS

PROJECT #	0860-86
Doc. Type	SPR

Executive Contacts								
	First Name	LAST NAME	Area Code	Phone #	Ext.	Area Code	Fax #	E-mail
EXECUTIVE DIRECTOR	Ramon	Hirsig	916	327-4975		916	324-2586	ramon.hirsig@boe.ca.gov
Budget Officer	Rene	Gutierrez	916	324-9648		916	322-3184	rene.gutierrez@boe.ca.gov
CIO	Carol	Fieldhouse	916	445-8677		916	327-3483	carol.fieldhouse@boe.ca.gov
Project Sponsor	David	Gau	916	445-1516		916	323-8765	david.gau@boe.ca.gov

Direct Contacts								
	First Name	LAST NAME	Area Code	Phone #	Ext.	Area Code	Fax #	E-mail
DOC. PREPARED BY	Heidi	Mazzola	916	323-4388		916	323-8765	heidi.mazzola@boe.ca.gov
Primary contact	Caroline	Cabias	916	322-3320		916	327-3483	caroline.cabias@boe.ca.gov
Project Manager	Rebecca	Stone	916	323-4474		916	323-8765	rebecca.stone@boe.ca.gov

INFORMATION TECHNOLOGY PROJECT SUMMARY **SECTION C: PROJECT RELEVANCE TO STATE AND/OR DEPARTMENTAL PLANS**

1.	What is the date of your current Operational Recovery Plan (ORP)?	Date	April 2004
2.	What is the date of your current Agency Information Management Strategy (AIMS)?	Date	2003
3.	For the proposed project, provide the page reference in your current AIMS and/or strategic business plan.	Doc.	BOE IMSP Strategic Plan (AIMS)
		Page #	12 9

PROJECT #	0860-86
DOC. TYPE	SPR

4.	IS THE PROJECT REPORTABLE TO CONTROL AGENCIES?	YES	NO
	If YES, CHECK all that apply:	X	
	a) The project involves a budget action.		
	b) A new system development or acquisition that is specifically required by legislative mandate or is subject to special legislative review as specified in budget control language or other legislation.		
	c) The project involves the acquisition of microcomputer commodities and the agency does not have an approved Workgroup Computing Policy.		
	d) The estimated total development and acquisition cost exceeds the departmental cost threshold.		
	e) The project meets a condition previously imposed by Finance.		

INFORMATION TECHNOLOGY PROJECT SUMMARY PACKAGE SECTION D: BUDGET INFORMATION

PROJECT #	0860-86
Doc. Type	SPR

Budget Augmentation Required**?	NO		If YES, indicate fiscal year(s) and associated amount:									
	Yes	X	FY	02-03	FY	03-04	FY	04-05	FY	05-06	FY	06-07
			\$ 0		\$ 0		\$ 4,904,000		\$ 9,808,000		\$ 9,808,000	

PROJECT COSTS

1.	Fiscal Year	2002-03	2003-04	2004-05	2005-06	2006-07	TOTAL
2.	One-Time Cost	\$ 107,417	\$ 689,819	\$ 720,243	0	0	\$ 1,517,479
3.	Continuing Costs	0	0	5,664,333	\$ 11,268,866	\$ 11,268,866	\$ 28,202,065
4.	TOTAL PROJECT BUDGET	\$ 107,417	\$ 689,819	\$ 6,384,576	\$ 11,268,866	\$ 11,268,866	\$ 29,719,544

SOURCES OF FUNDING

5.	General Fund	\$ 1,957	\$ 34,125	\$ 621,012	\$ 1,143,508	\$ 1,143,508	\$ 2,944,110
6.	Redirection	90,386	392,819	979,776	1,316,666	1,316,666	\$ 4,096,313
7.	Reimbursements						
8.	Federal Funds						
9.	Special Funds	15,074	262,875	4,783,788	8,808,692	8,808,692	\$ 22,679,121
10.	Grant Funds						
11.	Other Funds						
12.	PROJECT BUDGET	\$ 107,417	\$ 689,819	\$ 6,384,576	\$ 11,268,866	\$ 11,268,866	\$ 29,719,544

PROJECT FINANCIAL BENEFITS

13.	Cost Savings/Avoidances						
14.	Revenue Increase			\$ 9,386,667	\$ 28,160,000	\$ 28,160,000	\$ 65,706,667

Note: The totals in Item 4 and Item 12 must have the same cost estimate.

*NOTE: Budget Augmentation Required refers to the augmentation requested in the 2004-05 Finance Letter.

INFORMATION TECHNOLOGY PROJECT SUMMARY PACKAGE SECTION F: RISK ASSESSMENT INFORMATION

RISK ASSESSMENT

PROJECT #	0860-86
Doc. Type	SPR

	Yes	No
HAS A RISK MANAGEMENT PLAN BEEN DEVELOPED FOR THIS PROJECT?	X	

General Comment(s)

3.0 PROPOSED PROJECT CHANGE

3.1 PROJECT BACKGROUND/SUMMARY

Senate Bill 1701 (Peace) (Chapter 881, Statutes of 2002) mandates that the Board of Equalization (BOE) seek to minimize the revenue lost due to tax evasion activity by requiring a form of cigarette tax stamp that contains encrypted data capable of being read using a scanning or similar device. The legislation requires that the new stamp be in place by January 1, 2005.

On December 2, 2002, the BOE submitted a Feasibility Study Report (FSR) in support of the Alternative Cigarette Tax Stamp (ACTS) Project that was approved by the Department of Finance (DOF) on December 10, 2002. Since the fall of 2002, the ACTS Project team has met with other state and federal agency representatives to discuss current encryption techniques and to identify what current anti-counterfeiting techniques would be effective in stamp requirements. From these meetings, the BOE and Department of General Services (DGS) documented specific program and technical requirements for a formal vendor bid.

In December 2003, DGS released an Invitation for Bid (IFB). Two IFB responses were received by the DGS and evaluated by the BOE evaluation team. One response did not meet the IFB requirements and was deemed non-responsive. The other response exceeded the Project budget limitations. As a result, the procurement was cancelled. A decision was made to request funding for the increased cost of the stamp before releasing another solicitation document. Accordingly, a Finance Letter requesting an augmentation of \$4,904,000 in FY 2004-05 and \$9,808,000 in FY 2005-06 and ongoing to implement the provisions of SB 1701 was submitted to DOF on April 13, 2004 (see Attachment 1). A new IFB procurement is in progress.

BOE staff project a slight increase in revenue. In the FSR, revenue was originally projected as \$61,100,000. This estimate has been increased to \$65,706,667 based on four months of revenue (\$9,386,667) in FY 2004-05 and annual, on-going revenue starting in FY 2005-06 of \$28,160,000. The projected revenue increase is based upon updated BOE Research and Statistics Section evasion estimates combined with new information provided by the BOE Investigation Division.

While the most significant change in the Project is due to the increase in the cost of the stamp, other, more minor changes are also described in Section 3.4.

3.2 PROJECT STATUS

Prior to the opening of the IFB bid, the ACTS Project was within the scope, schedule and budget approved in the FSR. While the January 1, 2005 ACTS implementation date has not changed, the BOE needs to resolve the increased cost of the stamp (e.g., Finance Letter request). Accordingly, the original IFB procurement scheduled for completion on March 31, 2004 was cancelled. The new procurement is targeted for completion with Board Member approval and a fully executed contract scheduled for June 30, 2004. Other delayed completion dates are minor overall and include such tasks as completion of desk manuals and notification to industry. All revisions are reflected in the Project Phase chart below and in Section 4.5.5 – Project Schedule.

Project Phase	Deliverables	Status
Concept	BCP and FSR	Completed
Project Management Planning	Project Management Planning Documents	In Process
Stamp System Procurement	Procurement Documents	Completed
Second Stamp System Procurement	Procurement Documents, Board Approval, Vendor Contract	In Process
Stamp Transaction System	System Documents, Completed System, Test Results	In Process
Training/Public Relations	Training Plan/Delivery, Procedure Manuals, Cigarette Program Change Notification	Not Started
Implementation/Production	Implementation Plan, Operational System	Not Started
Maintenance	Project Closeout, Lessons Learned, PIER	Not Started

3.3 REASON FOR THE PROPOSED CHANGE

As stated in Project Background/Summary Section, Section 3.1, DGS released an IFB for which two bids were received and evaluated. One bid did not meet the requirements in the IFB and was deemed unresponsive. The second bid was responsive in addressing the technology to produce a secure cigarette tax stamp capable of effectively deterring counterfeiting and evasion of payment of the applicable state excise tax. However, the bid cost exceeded the Project budget limitations. This has resulted in the need for a Finance Letter being submitted to DOF in order to continue the Project, and a new IFB procurement process being initiated. Other, more minor changes to the Project are discussed below in Proposed Project Change, Section 3.4.

3.4 PROPOSED PROJECT CHANGE

The changes described below are addressed in various SPR schedules and attachments. Reconciliation of FSR and SPR Fiscal Displays, Attachment 6, outlines the changes to the line item categories, including the DOF augmentation request for the total Project.

INCREASED FUNDING FOR NEW TECHNOLOGY

As stated above, the most significant change to the Project is the need for increased funding to support the new stamp technology. The Finance Letter submitted by BOE requests an additional \$4,904,000 in FY 04-05 and \$9,808,000 in FY 05-06 and ongoing to support the new stamp vendor contract. This change will result in a second procurement phase and new IFB release. Details of the schedule, task and cost changes are reflected in Project Status, Section 3.2, Project Schedule, Section 4.5.5, and in the Updated Economic Analysis Worksheets (EAWs, Section 6.0).

SALES OF HAND APPLIED STAMPS

The sales and distribution of cigarette tax stamps for hand application to odd size cigarette packs was proposed in the FSR to be the direct responsibility of BOE staff. After a review of the requirements for BOE to maintain a secure inventory and sell cigarette tax stamps, a decision was made that the hand applied stamps function would be more efficiently managed by the new stamp vendor.

MULTIPLE VENDORS

The FSR provided for consideration of multiple vendors for a cigarette tax stamp, dissolving a monopoly that currently exists with only one vendor of a cigarette tax stamp. Discussions with DGS led to the conclusion that it would not be possible to allow for multiple vendors to provide a cigarette tax stamp for the State of California. The vendors were not proposing visually identical stamps, security features within the stamp, stamping machinery and scanning devices, or offering those stamps at the same cost to the BOE, thereby making it impossible to award different contracts to each for the same item. The IFB will result in only one vendor award. At the same time, the IFB process allows vendors to submit more than one bid. Each bid must meet all IFB requirements to be accepted and evaluated as a stand-alone bid. There is no recognizable impact to cost or schedule to allow for multiple bid submissions.

STAFFING ADJUSTMENTS

- **Technical Consultant:** During the research and development stage of the requirements phase, the BOE determined that a Stamp Technical Consultant would be needed to provide expertise related to the new stamp security features. In the FSR, it was projected that \$375,000 would be needed as follows: FY 2002-03 - \$75,000; FY 2003-04 - \$150,000; and FY 2004-05 - \$150,000. However, no funds were expended in FY 2002-03 as much of the requirements information needed was gathered during the research phase and provided by law enforcement agencies. This eliminated the need for a technical consultant to assist in designing the IFB requirements. The proposed budget is \$225,000 (\$105,485 for FY 2003-04 and \$119,515 for FY 2004-05) which will allow the Technical Consultant to assist in the IFB evaluation and testing phases.
- **Independent Project Oversight Consultant (IPOC):** The FSR proposed that IPOC responsibilities be handled by a BOE employee designated as the IPOC. However, due to the sensitivity and criticality of the Project, a decision was made to contract with a seasoned, external IPOC to better ensure the monitoring and success of the project. The IPOC contract was effective September 1, 2003, and funded by existing Project

Alternative Cigarette Tax Stamp Project
Special Project Report

funds not utilized for the Technical Consultant discussed above. The proposed IPOC oversight budget is \$75,000 (\$44,515 for FY 2003-04 and \$30,485 for FY 2004-05).

- **BCP Positions:** BCP #3 (FY 2003-04) funded four business positions to support the project. BOE eliminated three of the four positions (Associate/Tax Auditor and Tax Technician [TT] III) and \$163,000 in Personnel Services costs as part of its Budget Section 4.10 reduction plan. Duties of the Associate/Tax Auditor positions will be assigned to the Tax Auditor position that is currently performing the duties of the stamp desk. In addition, the remaining tasks will be dispersed amongst existing audit staff. This will result in delays in performing the required tasks. The work associated with the TT III will be redirected from current staff to perform the duties described for the position in the BCP. The TT II position will be established effective January 1, 2005, and will perform the duties described in the BCP.
- **Programming Resources:** The FSR planned for use of contract programmers to fill behind existing Technology Services Division (TSD) employees who would develop the Stamp Transaction (Ordering) System. However, BOE is proposing to use fifty percent of contract programmers to work directly on the Project and the remaining fifty percent to backfill TSD employees at a cost estimate of \$114,000 and \$153,000 for FY 2003-04 and 04-05 respectively. No *additional* funding is required as funds are already available from the Continuing Existing (IT) Costs identified in the FSR. Based on the skill sets currently available in BOE, partial use of contract programmers for direct Project programming provides the most effective use of available skills sets, time and funding.

COST

As noted in the Project Background/Summary, Section 3.1, responses to the IFB resulted in a more current understanding of the best available encryption and anti-counterfeiting technology. On April 13, 2004, BOE submitted a Finance Letter for an additional \$4,904,000 and \$9,808,000 (FY 04-05, and 05-06 and ongoing, respectively) to address only the issue of the increased cost of the new stamp/vendor. This amount is reflected in the EAW, Attachment 5, Proposed Alternative, Continuing IT Project Costs, Contract Services line item for FY 2004-05 and continuing. No augmentation is requested for other elements of the project.

SCHEDULE

As stated in Project Status, Section 3.2, the implementation date of January 1, 2005 has not changed. However, the most critical delay is based on the requirement to release a new IFB pending the BOE Finance Letter request to augment the Project budget. These schedule changes are reflected in Project Phase, Section 3.2 and Project Schedule, Section 4.5.5. The phase/task delays are as follows:

- **Stamp System Procurement (Initial):** The original Board Member approval and contract execution was planned for completion by February/March 2004 and was cancelled due to the bid cost exceeding the Project budget limitations.
- **Stamp System Procurement (New):** It is anticipated that the new contract will be fully executed by June/July 2004. The Project Schedule has been updated to address this new phase and associated tasks.

SCOPE

As noted in the Project Background/Summary, Section 3.1, the Project scope remains the same.

3.5 IMPACT OF PROPOSED PROJECT CHANGES

INCREASED FUNDING OF NEW TECHNOLOGY

The BOE anticipates complying with the requirements of SB 1701 by the mandated implementation date of January 1, 2005. The business objectives of the Project remain the same, however, as discussed previously, based on the new technology for cigarette tax stamp encryption, the FSR-approved Project budget is not sufficient to purchase the technology required for the new stamp. An augmentation to the FSR-approved Project budget is needed in order to complete the Project and realize the projected revenue. As stated above, a Finance Letter was submitted on April 13, 2004, requesting an additional \$4,904,000 in FY 2004-05 and \$9,808,000 in FY 2005-06 and ongoing. The projected annual revenue has increased to \$65,707,667 (\$9,386,667 in FY 2004-05 and \$28,160,000 in FY 2005-06) and forward, a \$4,606,667 increase over the FSR estimate of \$61,100,000. See EAW, Attachment 5.

Alternative Cigarette Tax Stamp Project
Special Project Report

A new IFB procurement is underway, recognizing that the second scheduled procurement phase will be completed four months after the FSR original procurement planned completion date. With the additional funding, and the changes outlined in Proposed Project Change, Section 3.4, BOE anticipates being able to contract with a vendor capable of meeting the requirements of SB 1701 and providing a cigarette tax stamp with sufficient security features to deter counterfeiting. Approval of the requested funding will allow BOE to meet the business objectives of the Project, and at the same time protect the tax revenue base and increase revenue to the State and local governments.

SALES OF HAND APPLIED STAMPS

BOE proposes that the new stamp vendor manage this process, including stamp sales, receipt, delivery and tracking. This eliminates need for a secured room for storage of the stamps at the BOE. Funding for the associated staff tasks was eliminated from the budget as part of the 2003-04 Budget Act, Section 4.10.

MULTIPLE VENDORS

Multiple Vendors would have eliminated the monopoly of one vendor for the cigarette tax stamp in California, and provided a competitive means to control the price of the stamp. Having multiple vendors would have put multiple stamps and means to apply and validate the stamps in the market place. However, this would have required multiple application machines and scanning devices to be purchased or provided to BOE staff, Licensed Cigarette Distributors and retailers. The savings in this new approach is undeterminable as the FSR did not address the true cost of the new stamp technology.

STAFFING ADJUSTMENTS

- **Technical Consultant:** The impact to the identification of stamp requirements for the procurement by not hiring a Technical Consultant for the research and development phase of the ACTS project is relatively minor. BOE staff met with other state and federal agency representatives to review current encryption techniques and to identify what current anti-counterfeiting techniques would be effective for the new stamp requirements. This resulted in a savings of \$75,000 in FY 2002-03 for Contract Services. In FY 2003-04 and FY 2004-05, the Contract Services annual cost of \$150,000 is reduced to \$105,485 and \$119,515 respectively. The savings will be used to fund the external IPOC discussed in Proposed Project Change, Section 3.4.
- **IPOC:** As noted above, this will be funded using available "Technical Consultant" savings. Funding the IPOC contract to support ACTS Project Management oversight will decrease the risk of potential project failure.
- **BCP Positions:** As stated in Proposed Project Change, Section 3.4, ongoing duties will be assigned to the existing stamp desk staff position, and existing audit staff, resulting in delays to perform many of the required tasks. In addition, Project development work funded by the BCP is being carried out by redirected program staff.
- **Programming Resources:** The change in the use of contract programmers to now perform direct Project programming work as well as backfill TSD programmers will result in an approximate cost of \$267,000 and 2,779 hours of redirected software customization programming work. No additional funding is required as stated in Section 3.4. Funds are currently available from the continuing existing (IT) costs identified in the FSR.

3.6 FEASIBLE ALTERNATIVES CONSIDERED

As stated in the BOE Finance Letter, three alternatives/funding options were considered: 1) Approve contingency funding to accommodate the potential budgetary impact of the new contract; 2) request a deficiency to fund the new contract in FY 2004-05; and 3) do not approve funding augmentation. The first alternative was selected. While it requires an augmentation, it assures compliance with the requirements of SB 1701, reduces fraud and revenue loss, and it protects the tax revenue base and increases revenue to the State and local governments. Please refer to the April 13, 2004 Finance Letter, Section D, Justification/Analysis of All Feasible Alternatives for pros and cons of the three alternatives.

The alternatives defined in the FSR are no longer considered feasible. The first alternative, to continue with the current distribution system, substantially limits BOE's ability to successfully monitor and control the stamps required to prevent fraud and minimize tax evasion activities mandated by legislation. The other alternative

Alternative Cigarette Tax Stamp Project
Special Project Report

does not provide for the resources to enable the BOE to meet the mandated requirements. Therefore, these alternatives are not addressed in this SPR.

3.7 IMPLEMENTATION PLAN

Updated phases and milestones are provided in Project Status, Section 3.2, and in Project Schedule, Section 4.5.5. Implementation of SB 1701 requirements is still planned for January 1, 2005, as required by the bill.

4.0 UPDATED PROJECT MANAGEMENT PLAN

4.1 PROJECT MANAGER QUALIFICATIONS

A qualified project manager was redirected and is still in charge of the ACTS Project. The Project Manager has an understanding of the project management methodologies employed by the BOE to ensure that projects fully meet business requirements and are implemented on schedule and in the most cost-effective manner.

4.2 PROJECT MANAGEMENT METHODOLOGY

The project management methodology described in the FSR Project Management Methodology, Section 6.2, will continue to be followed as it meets the standards established by the Project Management Institute (PMI) and the Institute for Electrical and Electronics Engineers (IEEE).

4.3 PROJECT ORGANIZATION

Refer to Attachment 2 for a current project organization chart. The Project organization chart has been updated to reflect the actual positions described more generally in the FSR.

4.4 PROJECT PRIORITIES

The project trade-off matrix below shows the relative importance of each factor:

- *Constrained* means the factor cannot be changed
- *Accepted* means the factor is somewhat flexible to the project circumstance
- *Improved* means that the factor can be adjusted.

Schedule	Scope	Resources
1	2	3

4.5 PROJECT PLAN

4.5.1 PROJECT SCOPE

The ACTS Project was approved to support BOE-administered Cigarette Tax Stamp program and to facilitate the changes as mandated by SB 1701. The scope of the ACTS Project has not changed.

4.5.2 PROJECT ASSUMPTIONS

Planning for the ACTS Project was outlined in the ACTS Project FSR. The assumptions included in the FSR remain the same except for Assumption No. 1 that assumed that multiple vendors would be identified. As stated in 3.4 Proposed Project Changes, through discussions with DGS, it is not feasible to contract with more than one vendor at a time for the stamping system.

4.5.3 PROJECT PHASING

In the ACTS Project FSR, BOE described a phased implementation that would allow an incremental rollout of functions associated with the recommended approach. This approach will still be followed within the existing project phases as detailed under Section 4.5.5 Project Schedule.

4.5.4 PROJECT ROLES AND RESPONSIBILITIES

Four Project organization changes have occurred that were not provided for (completely) in the FSR. First, and most critical, BOE has contracted for an external, seasoned IPOC in lieu of redirecting a BOE employee. This

better ensures the success of this very sensitive and critical project. Second, a Business Project Manager has been identified for the Project to ensure that the business project focus is addressed timely and effectively to meet the business needs. Third, the SPR provides that contract programmers will now split their time between direct ACTS Project programming work and backfill of TSD programmers assigned to the Project; different from the FSR where contract programmers were intended only to backfill TSD employees. Last, the Technical Consultant was not used to assist in determining the IFB requirements given the input from various law enforcement agencies. Emphasis will be on advising the Project during the IFB evaluation and vendor testing processes.

4.5.5 PROJECT SCHEDULE

Attachment 7 is the updated Project Schedule, including Project Phases, critical tasks, estimated Start and Completion Dates, and Status of those tasks. As discussed in Project Status, Section 3.2, the most significant change in the Schedule is the inclusion of a second stamp vendor procurement process, including Board Member approval to execute a contract. While the FSR planned for a February 2004 Board Member approval date, the updated Schedule projects Board Member approval in June 2004. While the scheduling of tasks leaves little room for any further delays, BOE intends to meet the legislative mandate for implementation by January 1, 2005.

4.6 PROJECT MONITORING

The project monitoring described in the approved FSR has been in place since the beginning of the project, with the exception of one change. A decision was made to hire a seasoned contract IPOC based on the sensitivity and criticality of this Project. The IPOC will provide the project management oversight required by Budget Letter 03-04 and related guidelines.

4.7 PROJECT QUALITY

As stated in the approved FSR, BOE is committed to project quality. The FSR-approved project quality assurance approach remains in place, and will be used for all project deliverables.

4.8 CHANGE MANAGEMENT

The change management methodology approved in the FSR remains in place and will be used to manage change throughout the duration of the Project. The procedures will address all phases and deliverables of the system development life cycle and support production maintenance, issue tracking and resolution, and tracking of production and test incidents through identification, analysis, fix and retest. The process provides detailed performance metrics to support project management planning and decision-making.

4.9 AUTHORIZATION REQUIRED

Approval by DGS is required to release a new IFB for the stamp vendor. This SPR and the Finance Letter requesting a funding augmentation must be approved, and funding provided in the Governor's Budget for the Project to continue.

5.0 UPDATED RISK MANAGEMENT PLAN


A Risk Management Plan was identified in the ACTS Project FSR, and it documents the process and procedures that BOE is using to manage project risks. In addition to BOE's risk management work, the IPOC will provide project oversight and also prepare a quarterly project risk analysis. As anticipated risk events occur or fail to occur, and as actual risk events are evaluated and resolved, the Risk Management Plan is routinely updated. Attachment 3 is the current Risk Identification sheet.

6.0 ECONOMIC ANALYSIS WORKSHEETS

Attachment 4 includes the EAWs from the original FSR. Attachment 5, ACTS SPR EAWs, is revised to include the changes that impact the Project. Attachment 6, Reconciliation of FSR and SPR Fiscal Displays, details the changes between the original FSR and the proposed SPR.

STATE OF CALIFORNIA
FINANCE LETTER - COVER SHEET
FOR FISCAL YEAR 2004/2005

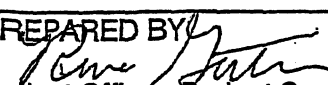
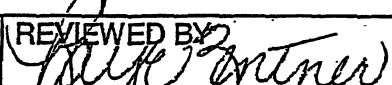


Department of Finance
915 L Street
Sacramento, CA 95814
IMS Mail Code: A-15

BCP # 2	PRIORITY NO. 2	ORG. CODE 0860	DEPARTMENT  State Board of Equalization
PROGRAM 45 Cigarette and Tobacco Products Tax Program	ELEMENT 45.30 Auditing Accounts 45.40 Enforcement Activities	COMPONENT	

TITLE OF PROPOSED CHANGE
ALTERNATIVE CIGARETTE STAMPS CONTRACT

SUMMARY OF PROPOSED CHANGES

This proposal requests a total of \$4,904,000 (\$564,000 General Fund, \$113,000 Breast Cancer Fund, \$1,409,000 Cigarette and Tobacco Products Surtax Fund, and \$2,818,000 California Children and Families First Trust Fund in FY 2004-05 and \$9,808,000 (\$1,127,000 General Fund, \$226,000 Breast Cancer Fund, \$2,818,000 Cigarette and Tobacco Products Surtax Fund, and \$5,637,000 California Children and Families First Trust Fund in FY 2005-06 and ongoing to fully implement the provisions of SB 1701 (Chapter 881, Statutes of 2002). This legislation requires the Board of Equalization, as of January 1, 2005, to replace the current cigarette stamps and meter impressions with a stamp or meter impression that can be read by a scanning or similar device and encrypted with specified information. In addition, this request would protect the existing tax base and increase tax revenue by \$28.2 million.

REQUIRES LEGISLATION <input type="checkbox"/> YES <input checked="" type="checkbox"/> NO	CODE SECTION(S) TO BE AMENDED/ADDED	BUDGET IMPACT—PROVIDE LIST AND MARK IF APPLICABLE <input checked="" type="checkbox"/> ONE-TIME COST <input type="checkbox"/> FUTURE SAVINGS <input checked="" type="checkbox"/> FULL-YEAR COSTS <input checked="" type="checkbox"/> REVENUE <input type="checkbox"/> FACILITIES/CAPITAL COSTS	
PREPARED BY  Budget Officer, Budget Section	DATE 4/13/04	REVIEWED BY  Deputy Director, Administration	DATE 4/13/04
REVIEWED BY  Chief, Financial Mgmt. Division	DATE 4/13/04	DIRECTOR  Executive Director	DATE 4/13/04

IF PROPOSAL AFFECTS ANOTHER DEPARTMENT, DOES OTHER DEPARTMENT CONCUR WITH PROPOSAL?

☒ YES ☐ NO

ATTACH COMMENTS OF AFFECTED DEPARTMENT, SIGNED AND
DATED BY THE DEPARTMENT DIRECTOR OR DESIGNEE.

FOR INFORMATION TECHNOLOGY REQUESTS, SPECIFY THE DATE SPECIAL PROJECT REPORT (SPR)
OR FEASIBILITY STUDY REPORT (FSR) WAS APPROVED BY DOIT.

DATE N/A PROJECT # N/A FSR ☐ OR SPR ☐

FISCAL IMPACT:

	<u>Appropriation No.</u> <u>(Org) - (Ref) - (Fund)</u>	<u>Dollars (in Thousands)</u>		
		<u>Past Year</u>	<u>Current Year</u>	<u>Budget Year</u>
Existing Program:	0860 - 001 - 0001	\$ 4,082	\$ 3,936	\$ 3,936
	0860 - 001 - 0004	\$ 124	\$ 124	\$ 124
	0860 - 001 - 0230	\$ 1,892	\$ 1,901	\$ 1,901
	0860 - 001 - 0623	\$ 1,674	\$ 1,670	\$ 1,670
Reimbursements	0860 - 501 - 0995	\$ —	\$ —	\$ —
	TOTAL	7,772	7,631	7,631
Positions		74.4	71.5	71.5
Personnel Years		71.5	68.7	68.7
Proposed Changes:	0860 - 001 - 0001	\$ —	\$ —	\$ 564
(by appropriation)	0860 - 001 - 0004	\$ —	\$ —	\$ 113
	0860 - 001 - 0230	\$ —	\$ —	\$ 1,409
	0860 - 001 - 0623	\$ —	\$ —	\$ 2,818
Reimbursements	0860 - 501 - 0995	\$ —	\$ —	\$ —
	TOTAL	\$ —	\$ —	\$ 4,904
Positions				
Personnel Years				

For EDP requests, include date Special Project Report (SPR) or Feasibility Study Report (FSR), approved _____.

State Board of Equalization

Property and Special Taxes Department

Alternative Cigarette Stamps Contract

Fiscal Year (FY) 2004-05

A. Nature of Request

The State Board of Equalization (BOE) requests a budget augmentation to establish funding to support a new contract involving developing an alternative to the existing cigarette tax stamp. This alternative stamp is mandated by the provisions of Senate Bill (SB) 1701 (Chapter 881, Statutes of 2002) with the intent of reducing counterfeiting and decreasing tax evasion.

The BOE is submitting this May Revision request for half-year funding of \$4.9 million to implement the provisions of SB 1701. The full year augmentation funding will be \$9.8 million.

BOE estimates cigarette tax revenue evasion at \$238 million annually. Additionally, BOE estimates an accompanying evasion of \$43.6 million in state and local sales and use taxes. BOE believes that the alternative cigarette stamp will reduce this evasion by an estimated \$28.2 million. (\$23.8 million in cigarette taxes, \$2.9 million in state sales taxes, and \$1.5 million in local and special district sales taxes.) If the May Revision request is not approved and the project does not proceed, this reduction in tax evasion will not occur.

B. Background/History

As of January 1, 2005, SB 1701 will require the Board of Equalization (BOE) to implement a cigarette tax stamp or meter impression capable of being read by scanning or similar device, and, at a minimum, include specific data encrypted within the new stamp.

In anticipation of the proposed legislation, the BOE's Alternative Cigarette Tax Stamp (ACTS) Project team: 1) conducted a nationwide Market Interest Survey in February 2002; 2) met with these interested parties in May 2002 and solicited preliminary proposals; and 3) in October 2002 met with two vendors who presented their proposed cigarette tax stamps and stamping systems.

Since the Fall of 2002, the ACTS Project team completed a Budget Change Proposal and Feasibility Study Report requesting funding and resources for the project. At that time, the procurement cost for a new stamp was unknown. Approvals of these documents were received from the Department of Finance (DOF) in December 2002, and January 2003, respectively.

In addition, the ACTS Project team met with other state and federal agency representatives to discuss current encryption techniques and to identify what current anti-counterfeiting techniques would be effective in BOE's stamp requirements.

B. Background/History (continued)

From these meetings, BOE and the Department of General Services (DGS) staff documented specific program and technical requirements. In December 2003, the BOE and DGS released an Invitation for Bid (IFB). Two responses to the IFB were received by the DGS and evaluated by the BOE evaluation team. One response did not meet the requirements in the IFB and was deemed "non-responsive". The other response exceeded the budgetary limitations of the BOE. As a result, the procurement was canceled.

Although the contract amount is unknown at this time, the BOE is submitting this May Revision request for approval of the concept and funding authority prior to proceeding with another procurement.

DOF staff indicated that any proposal requiring General Fund support should provide a 5:1 return of General Fund revenue to cost before DOF could consider funding.

C. State Level Considerations

This proposal is consistent with BOE's Strategic Plan, Issue II – Modernizing Tax Compliance Practices," Strategy 4 – "Pursue changes to the tax laws to make them more relevant to current and evolving business practices."

D. Justification/Analysis of All Feasible Alternatives

SB 1701 requires implementation of a new stamp beginning January 1, 2005.

Alternative 1

Approve contingency funding of \$4.9 million beginning FY 2004-05 and \$9.8 million in FY 2005-06 to accommodate the potential budgetary impact of the new contract (See Exhibit I, page 6 of 9).

Pros:

- Assures compliance with the requirements of SB 1701 and the objectives of the project.
- Reduces fraud and revenue loss.
- Protects the tax revenue base and increases revenue to the State and local government.

Cons:

- Requires a half-year augmentation of \$4.9 million beginning in FY 2004-05.
- Requires a full year augmentation of \$9.8 million in FY 2005-06.

D. Justification/Analysis of All Feasible Alternatives (continued)

Alternative 2

Request a deficiency to fund the new contract in the FY 2004-05.

Pros:

- Assures compliance with the requirements of SB 1701 and the objectives of the project.
- Reduces fraud and revenue loss.
- Protects the tax revenue base and increases revenue to the State and local government.

Con:

- Request a deficiency funding with Section 27.00 notification to the Department of Finance. This option is not feasible since the Department of Finance will not approve deficiencies per Budget Letter 03-18.

Alternative 3

Do not approve the additional funding to establish the new contract.

Pro:

- Requires no additional expenditure authority.

Cons:

- The BOE does not have additional General Fund resources to fund this new contract. Due to major reduction to the BOE's General Fund, the BOE can not absorb the additional amount within its budget.
- If the project does not proceed, the BOE estimates that as much \$28.2 million in cigarette tax and sales and use tax revenue evasion will continue due to counterfeit stamps.

E. Timetable

Effective July 1, 2004.

F. Recommendation

It is recommended that Alternative 1 be approved and that the BOE be authorized additional funding of \$4.9 million in FY 2004-05 and \$9.8 million in FY 2005-06 to avert a potential revenue loss. Taxpayer services, and in turn revenue, would be adversely affected if BOE is forced to redirect monetary resources that would otherwise be used to support revenue operations.

G. Fiscal Detail

See attached "Fiscal Detail" schedules.

Alternative Cigarette Stamp Contract

Revenue:	Excise Tax	Sales Tax (General Fund)	STJ and Local Government	Total
Tax Evasion	\$238,000,000	\$29,000,000	\$14,600,000	\$281,600,000
10% Reduction in Tax Evasion (SB 1701)	23,800,000	2,900,000	1,460,000	28,160,000
General Fund (\$0.10 of \$0.87, e.g. 11.49%)	2,734,620 <u>a/</u>	2,900,000 <u>a/</u>		5,634,620
Breast Cancer (\$0.02 of \$0.87, e.g. 2.30%)	547,400			547,400
Proposition 99 (\$0.25 of \$0.87, e.g. 28.74%)	6,840,120			6,840,120
Proposition 10 (\$0.50 of \$0.87, e.g. 57.47%)	13,677,860			13,677,860
STJ and Local Government Funding			1,460,000	1,460,000
Total Recovered Revenue	<u>\$23,800,000</u>	<u>\$2,900,000</u>	<u>\$1,460,000</u>	<u>\$28,160,000</u>

Alternative Stamp Contract Based on Recovered Revenue

General Fund (\$0.10 of \$0.87, e.g. 11.49%)	\$1,126,924 <u>a/</u>	\$1,126,924
Breast Cancer (\$0.02 of \$0.87, e.g. 2.30%)	225,581	225,581
Proposition 99 (\$0.25 of \$0.87, e.g. 28.74%)	2,818,781	2,818,781
Proposition 10 (\$0.50 of \$0.87, e.g. 57.47%)	5,636,582	5,636,582
Total Annual Cost of Contract (All funds)	<u>\$9,807,868</u>	<u>\$9,807,868</u> <u>b/</u>
May Revision (Half Year)	\$4,903,934	\$4,903,934

a/ Breakdown of cost is only associated with the \$0.87 revenue (Excise Tax). DOF mandates a 5 to 1 benefit/cost ratio. A General Fund revenue recovery of \$5,634,620 (\$2,734,620 + \$2,900,000) translates into a maximum cost of \$1,126,924.

b/ Given the 5 to 1 benefit/cost requirement and funding split that matches the proportion of funds of the 87 cent stamp, BOE estimates the highest value of the needed funding to be \$9,807,868.

BUDGET CHANGE PROPOSAL
- FISCAL DETAIL
FISCAL YEAR 2004-05
(\$ in Thousands)

Title of Proposed Change: Alternative Cigarette Stamps Contract

Program/Element/Component: 45 Cigarette and Tobacco Products Tax Program
45.30 Auditing Accounts/45.40 Enforcement Activities

	Personnel Years			
	CY	BY	Current Year	Budget Year
TOTAL SALARIES AND WAGES				
Salary Savings				
NET TOTAL SALARIES AND WAGES				
Staff Benefits				
TOTAL PERSONAL SERVICES				
OPERATING EXPENSE AND EQUIPMENT				
General Expense				
Printing				
Communications				
Postage				
Travel-In-State				
Travel-Out-of -State				
Training				
Facilities Operations				
Consulting & Professional Services: Interdepartmental				
Consulting & Professional Services: External				4,904
Stephen P. Teale Data Center				
Data Processing				
Equipment				
Other Items of Expense: (Specify Below)				

Finance Letter No. 2

	<u>Current Year</u>	<u>Budget Year</u>
TOTAL OPERATING EXPENSE AND EQUIPMENT		<u>\$4,904</u>
TOTAL EXPENDITURES (State Operations)		<u>\$4,904</u>

Source of Funds

General Fund	(0001)	\$564
Special Funds:		
Breast Cancer Fund	(0004)	113
State Emergency Telephone	(0022)	
Propane Surcharge Fund	(0051)	
Motor Vehicle Fuel	(0061)	
Occupational Lead Prevention Fund	(0070)	
Childhood Lead Poisoning Prev. Fund	(0080)	
Cig. and Tobacco Prod. Surtax Fund	(0230)	1,409
Oil Spill Prevention and Admin. Fund	(0320)	
Integrated Waste Management	(0387)	
Underground Storage Tank Fund	(0439)	
Energy Resources Programs Account	(0465)	
CA. Children and Families First Trust Fund	(0623)	2,818
Timber Tax Fund	(0965)	
Gas Consumption Fund	(3015)	

Federal Funds

Other Funds

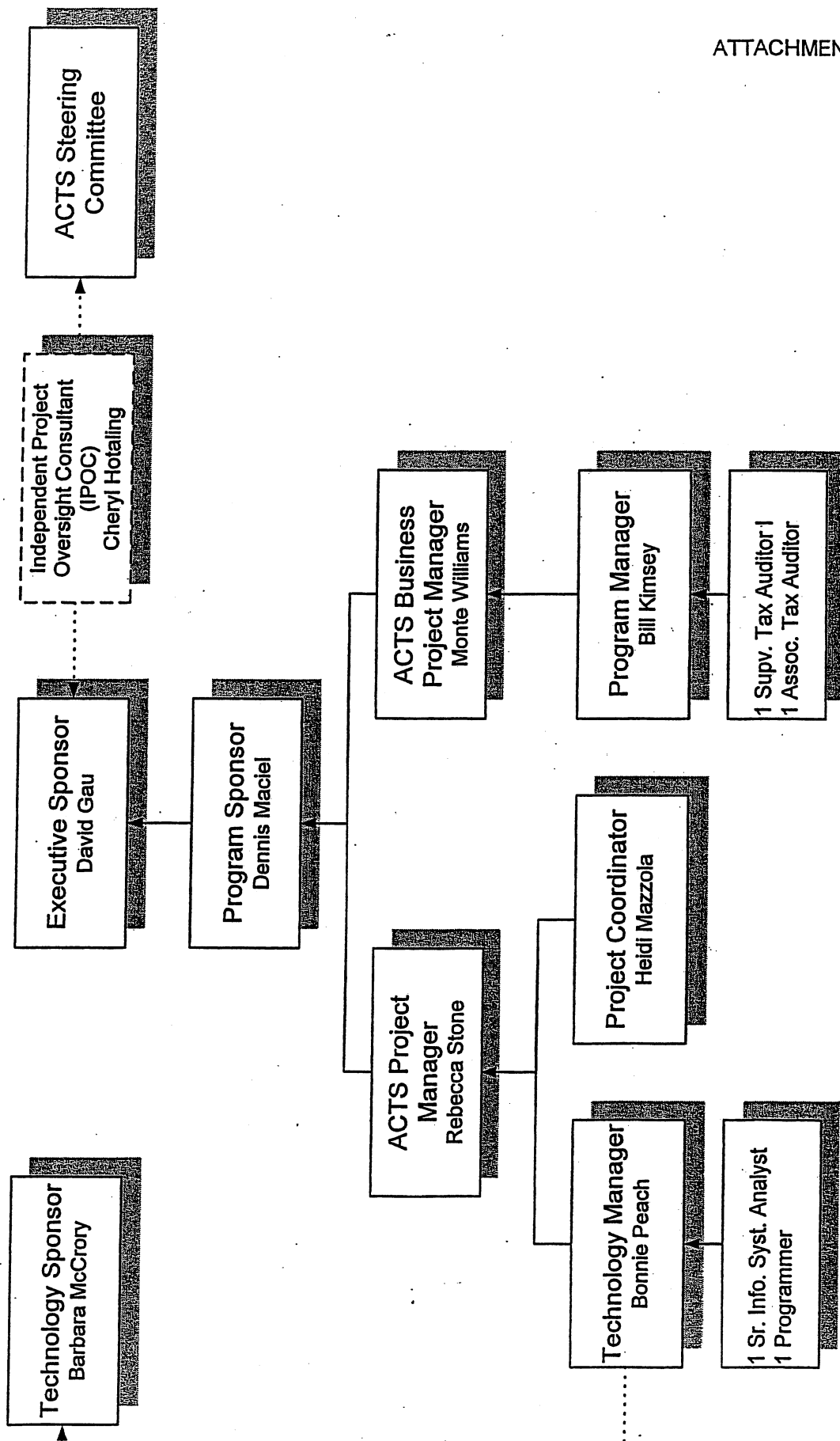
Reimbursements (0995)

SUMMARY OF PROPOSED CHANGES

	Current Year (\$ in Thousands)	Budget Year (\$ in Thousands)	Budget Year + One (\$ in Thousands)
Proposed Equipment:			
N/A			
Total			
Proposed Contracts:			
Consulting and Professional Services - External		\$4,904	\$9,808
Cigarette Tax Stamps Contract			
Total		\$4,904	\$9,808
One-Time Costs:			
N/A			
Total			
Future Savings:			
N/A			
Total			
Full-Year Cost Adjustments:			
N/A			
Total			

Alternate Cigarette Tax Stamp Project (ACTS) Organization Chart

November 2002 - January 2005



Alternative Cigarette Tax Stamp (ACTS) Project



State Board of Equalization

Version 1.0

Date: March 10, 2004

RISK IDENTIFICATION

Risk #	Risk Description	Probability	Impact	Contingency/Preventative Measures
1	Bid Proposal Exceeds Budget	High	High	Obtain additional project funding. Once funding is approved, a second IFB will be released.
2	No Qualified Bidder Response to IFB	Low	High	Market research, preliminary proposals, and discussions with interested parties gauged interest in determining viable vendors.
5	Vendor Will Not Pass Acceptance Testing Prior to Implementation (end-to-end testing)	Med	High	Passing testing is a contract contingency.
6	Program (Business) Resource Staffing Required for Testing and Ongoing Program Work	Med	Med	Redirect staff.
7	Technical Resource Staffing Required for Programming	Med	High	Hire backfill Programmers. Contract staff to assist.
10	Legislative Changes	Low	Med	Work with Legislative Division to determine any impact.
3	ACTS/Revenue Database Consolidation (RDC) Project Dependencies (RDC delays may result in problems delivering the functionality required for ACTS project)	Medium	High	Develop a manual process for ordering and purchasing of stamps until RDC is stabilized.
8	Interface/Communication with Vendor	Low	High	Develop a manual process for communicating stamp orders as a work around.
9	Contract Award Is Protested	Low	Med	Using DGS' Alternative Procurement Process Pilot to expedite any protests.
4	Vendor Will Not Pass Evaluation Testing	Med	High	Testing includes a production environment test. If vendor fails, contract is breached and awarded to next bidder.
11	Ability to Complete the Procurement by 6/30/04	High	High	Seek legislation to delay implementation date.

EXISTING SYSTEM/BASELINE COST WORKSHEET

Department: Board of Equalization

All costs to be shown in whole (unrounded) dollars.

Project: Alternative Cigarette Tax Stamp

Date Prepared: 11/14/02

Continuing Information	FY 2002/03		FY 2003/04		FY 2004/05		FY 2005/06		FY 2006/07		TOTAL	
	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts
Technology Costs												
Staff (salaries & benefits)	15.8	1,220,625	15.8	1,220,625	15.8	1,220,625	15.8	1,220,625	15.8	1,220,625	79.0	6,103,125
Hardware Lease/Maintenance		0		0		0		0		0		0
Software Maintenance/Licenses		0		0		0		0		0		0
Contract Services		0		0		0		0		0		0
Data Center Services		1,836,000		1,836,000		1,836,000		1,836,000		1,836,000		9,180,000
Agency Facilities		0		0		0		0		0		0
Other		0		0		0		0		0		0
Total IT Costs	15.8	3,056,625	15.8	3,056,625	15.8	3,056,625	15.8	3,056,625	15.8	3,056,625	79.0	15,283,125
Continuing Program Costs:												
Staff	1.0	51,000	1.0	51,000	1.0	51,000	1.0	51,000	1.0	51,000	5.0	255,000
Other _1/		1,316,666		1,316,666		1,316,666		1,316,666		1,316,666		6,583,330
Total Program Costs	1.0	1,367,666	1.0	1,367,666	1.0	1,367,666	1.0	1,367,666	1.0	1,367,666	5.0	6,838,330
TOTAL EXISTING SYSTEM COST	16.8	4,424,291	16.8	4,424,291	16.8	4,424,291	16.8	4,424,291	16.8	4,424,291	84.0	22,121,455

1/ \$733,333 per year Meyercord Co contract to manufacture tax stamps plus \$583,333 per year B of A Contract to distribute stamps.

Appendix A
Department: Board of Equalization

Project: Alternative Cigarette Tax Stamp

All Costs Should be shown in whole (unrounded) dollars.

Date Prepared: 11/14/02

	FY 2002/03		FY 2003/04		FY 2004/05		FY 2005/06		FY 2006/07		TOTAL	
	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts
One-Time IT Project Costs												
Staff (Salaries & Benefits)	1.5	118,437	5.5	390,926	4.7	378,925			0.0	0	11.7	888,288
Hardware Purchase		54,000		0		0				0		54,000
Software Purchase/License										0		0
Telecommunications										0		0
Contract Services		2,000		1,000		0				0		3,000
Software Customization												
Project Management												
Project Oversight (IPOC)												
IV&V Services												
Other Contract Services (Technical Experts)		0		0		0				0		0
TOTAL Contract Services		75,000		150,000		150,000				0		0
Data Center Services		75,000		150,000		150,000				0		375,000
Agency Facilities		25,000		25,000		35,000				0		375,000
Other		0		0		0				0		85,000
		23,000		8,000		9,000				0		0
Total One-time IT Costs	1.5	297,437	5.5	574,926	4.7	572,925	0.0	0	0.0	0	11.7	1,445,288
Continuing IT Project Costs												
Staff (Salaries & Benefits)												
Hardware Lease/Maintenance		0		0		0				22,200		44,400
Software Maintenance/Licenses		0		0		0				0		0
Telecommunications		2,000		3,000		3,000				0		0
Contract Services		0		0		790,000				3,000		14,000
Data Center Services		0		0		1,316,666				1,316,666		3,423,332
Agency Facilities		0		0		0				20,000		40,000
Other		50,000		99,000		99,000				0		0
Total Continuing IT Costs	0.0	52,000	0.0	102,000	0.0	892,000	0.2	1,460,866	0.2	1,460,866	0.4	446,000
Total Project Costs	1.5	349,437	5.5	676,926	4.7	1,464,925	0.2	1,460,866	0.2	1,460,866	12.1	3,967,732
Continuing Existing Costs												
Information Technology Staff												
Other IT Costs a/	15.8	1,270,625	14.4	1,103,573	13.9	1,064,006	15.8	1,220,625	15.8	1,270,625	75.7	5,829,454
Total Continuing Existing IT Costs	15.8	1,836,000	14.4	2,065,300	13.9	2,143,000	15.8	1,836,000	15.8	1,836,000	75.7	9,716,300
Program Staff b/												
Other Program Costs	1.0	51,000	1.0	51,000	2.7	167,600	4.8	252,400	4.8	252,400	14.3	774,400
Total Continuing Existing Program Costs	1.0	1,367,666	1.0	1,367,666	2.7	694,266	4.8	252,400	4.8	252,400	14.3	3,159,998
Total Continuing Existing Costs	16.8	4,424,291	15.4	4,536,539	16.6	3,901,272	20.6	3,309,025	20.6	3,309,025	90.0	19,480,152
TOTAL ALTERNATIVE COSTS	18.3	4,773,728	20.9	5,213,465	21.3	5,366,197	20.8	4,769,891	20.8	4,769,891	102.1	24,893,172
INCREASED REVENUES		0		0		9,100,000		76,000,000		26,000,000		61,100,000

a/ Cost of contract programmers which will be used to backfill continuing existing IT Staff who will be doing one-time IT project development. The cost of the backfill is requested in the BCP.

b/ Cost of contract programmers staff to support the alternative stamp process is requested within the BCP.

Printed on 12/3/2002

ALTERNATIVE #1: Provide Resources to Only Develop New Stamp

Date Prepared: 11/14/02

Department: Board of Equalization
Project: Alternative Cigarette Tax Stamp

All Costs Should be shown in whole (unrounded) dollars.

	FY 2002/03		FY 2003/04		FY 2004/05		FY 2005/06		FY 2006/07		TOTAL	
	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts
One-Time IT Project Costs												
Staff (Salaries & Benefits)	1.5	114,537	2.8	272,174	2.6	186,356	0.0	0	0.0	0	6.9	573,067
Hardware Purchase		54,000		0		0		0		0		54,000
Software Purchase/License		0		0		0		0		0		0
Telecommunications		0		0		0		0		0		0
Contract Services		0		0		0		0		0		0
Software Customization		0		402,000		402,000		0		0		804,000
Project Management		0		0		0		0		0		0
Project Oversight		0		0		0		0		0		0
IT&V Services		0		0		0		0		0		0
Other Contract Services		0		0		0		0		0		0
TOTAL Contract Services		75,000		150,000		150,000		0		0		375,000
Data Center Services		75,000		552,000		552,000		0		0		1,179,000
Agency Facilities		0		0		0		0		0		0
Other		23,000		8,000		9,000		0		0		0
Total One-time IT Costs	1.5	266,537	2.8	832,174	2.6	747,356	0.0	0	0.0	0	6.9	1,845,067
Continuing IT Project Costs												
Staff (Salaries & Benefits)	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0
Hardware Lease/Maintenance		0		0		0		0		0		0
Software Maintenance/Licenses		0		0		0		0		0		0
Telecommunications		2,000		3,000		3,000		3,000		3,000		14,000
Contract Services		0		0		758,333		1,516,666		1,516,666		3,791,665
Data Center Services		0		0		0		0		0		0
Agency Facilities		0		0		0		0		0		0
Other		50,000		99,000		99,000		99,000		99,000		446,000
Total Continuing IT Costs	0.0	52,000	0.0	102,000	0.0	860,333	0.0	1,618,666	0.0	1,618,666	0.0	4,231,665
Total Project Costs	1.5	318,537	2.8	934,174	2.6	1,607,689	0.0	1,618,666	0.0	1,618,666	6.9	6,077,732
Continuing Existing Costs												
Information Technology Staff	15.8	1,220,625	15.8	1,220,625	15.8	1,220,625	15.8	1,270,625	15.8	1,220,625	79.0	6,103,125
Other IT Costs		1,036,000		1,036,000		1,036,000		1,036,000		1,036,000		9,180,000
Total Continuing Existing IT Costs	15.8	3,056,625	15.8	3,056,625	15.8	3,056,625	15.8	3,056,625	15.8	3,056,625	79.0	15,283,125
Program Staff	1.0	51,000	1.0	51,000	2.4	131,650	3.8	212,300	3.8	212,300	12.0	658,250
Other Program Costs		1,316,666		1,316,666		658,333		0		0		3,291,665
Total Continuing Existing Program Costs	1.0	1,367,666	1.0	1,367,666	2.4	789,983	3.8	212,300	3.8	212,300	12.0	3,949,915
Total Continuing Existing Costs	16.8	4,424,291	16.8	4,424,291	18.2	3,846,608	19.6	3,268,925	19.6	3,268,925	91.0	19,233,040
TOTAL ALTERNATIVE COSTS	18.3	4,742,828	19.6	5,358,465	20.8	5,454,297	19.6	4,887,591	19.6	4,887,591	97.9	25,330,772
INCREASED REVENUES	0	0	0	0	0	0	0	0	0	0	0	0

Appendix A

Department: Board of Equalization
Project: Alternative Cigarette Tax Stamp

ECONOMIC ANALYSIS SUMMARY

All costs to be shown in whole (unrounded) dollars.

Date Prepared: 11/14/02

	FY 2002/03		FY 2003/04		FY 2004/05		FY 2005/06		FY 2006/07		TOTAL	
	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts
EXISTING SYSTEM												
Total IT Costs	15.8	3,056,625	15.8	3,056,625	15.8	3,056,625	15.8	3,056,625	15.8	3,056,625	79.0	15,283,125
Total Program Costs	1.0	1,367,666	1.0	1,367,666	1.0	1,367,666	1.0	1,367,666	1.0	1,367,666	5.0	6,838,330
Total Existing System Costs	16.8	4,424,291	16.8	4,424,291	16.8	4,424,291	16.8	4,424,291	16.8	4,424,291	84.0	22,121,455
PROPOSED ALTERNATIVE												
Project Effort to Implement SB1701 Cigarette Stamp Requirements												
Total Project Costs	1.5	349,437	5.5	676,926	4.7	1,464,925	0.2	1,460,866	0.2	1,460,866	12.1	5,413,020
Total Cont. Exist. Costs	16.8	4,424,291	15.4	4,536,539	16.6	3,901,272	20.6	3,309,025	20.6	3,309,025	90.0	19,480,152
Total Alternative Costs	18.3	4,773,728	20.9	5,213,465	21.3	5,366,197	20.8	4,769,891	20.8	4,769,891	102.1	24,893,172
COST AVOIDANCES	(1.5)	(349,437)	(4.1)	(789,174)	(4.5)	(941,906)	(4.0)	(345,600)	(4.0)	(345,600)	(18.1)	(2,771,717)
Increased Revenues		0		0		9,100,000		26,000,000		26,000,000		61,100,000
Net (Cost) or Benefit	(1.5)	(349,437)	(4.1)	(789,174)	(4.5)	8,158,094	(4.0)	25,654,400	(4.0)	25,654,400	(18.1)	58,328,283
Cum. Net (Cost) or Benefit	(1.5)	(349,437)	(5.6)	(1,136,611)	(10.1)	7,019,483	(14.1)	32,673,883	(18.1)	58,328,283		
ALTERNATIVE #1												
Provide Resources to Only Develop New Stamp												
Total Project Costs	1.5	318,537	2.8	934,174	2.6	1,607,689	0.0	1,618,666	0.0	1,618,666	6.9	6,097,732
Total Cont. Exist. Costs	16.8	4,424,291	16.8	4,424,291	18.2	3,846,608	19.6	3,268,925	19.6	3,268,925	91.0	19,233,040
Total Alternative Costs	18.3	4,742,828	19.6	5,358,465	20.8	5,454,297	19.6	4,887,591	19.6	4,887,591	97.9	25,330,772
COST AVOIDANCES	(1.5)	(318,537)	(2.8)	(934,174)	(4.0)	(1,030,006)	(2.8)	(463,300)	(2.8)	(463,300)	(13.9)	(3,209,317)
Increased Revenues		0		0		0		0		0		0
Net (Cost) or Benefit	(1.5)	(318,537)	(2.8)	(934,174)	(4.0)	(1,030,006)	(2.8)	(463,300)	(2.8)	(463,300)	(13.9)	(3,209,317)
Cum. Net (Cost) or Benefit	(1.5)	(318,537)	(4.3)	(1,252,711)	(8.3)	(2,282,717)	(11.1)	(2,746,017)	(13.9)	(3,209,317)		
ALTERNATIVE #2												
0.0												
Total Project Costs	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0
Total Cont. Exist. Costs	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0
Total Alternative Costs	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0
COST AVOIDANCES	16.8	4,424,291	16.8	4,424,291	16.8	4,424,291	16.8	4,424,291	16.8	4,424,291	84.0	22,121,455
Increased Revenues		0		0		0		0		0		0
Net (Cost) or Benefit	16.8	4,424,291	16.8	4,424,291	16.8	4,424,291	16.8	4,424,291	16.8	4,424,291	84.0	22,121,455
Cum. Net (Cost) or Benefit	16.8	4,424,291	33.6	8,848,582	50.4	13,272,873	67.2	17,697,164	84.0	22,121,455		

PROJECT FUNDING PLAN

Department: Board of Equalization

Project: Alternative Cigarette Tax Stamp

All Costs to be in whole (unrounded) dollars

Date Prepared: 11/14/02

	FY PYS	2002/03 Amts	FY PYS	2003/04 Amts	FY PYS	2004/05 Amts	FY PYS	2005/06 Amts	FY PYS	2006/07 Amts	TOTALS	
											PYS	Amts
TOTAL PROJECT COSTS	1.5	349,437	5.5	676,926	4.7	1,464,925	0.2	1,460,866	0.2	1,460,866	12.1	5,413,020
RESOURCES TO BE REDIRECTED												
Staff (Includes redirected program staff)	0.6	55,437	1.3	110,874	1.2	105,706	0.0	0	0.0	0	3.1	272,017
Funds:												
Existing System (Incl. redirected IT staff)		0	1.4	117,052	1.9	946,619		1,316,666		1,316,666		3,697,003
Other Fund Sources								0		0		0
TOTAL REDIRECTED RESOURCES	0.6	55,437	2.7	227,926	3.1	1,052,325	0.0	1,316,666	0.0	1,316,666	6.4	3,969,020
ADDITIONAL PROJECT FUNDING NEEDED												
One-Time Project Costs	0.9	242,000	2.8	347,000	3.3	310,600	0.0	20,000	0.0	0	7.0	919,600
Continuing Project Costs		52,000		102,000		218,600	4.0	325,600	4.0	345,600	8.0	1,043,800
TOTAL ADDITIONAL PROJECT FUNDS NEEDED BY FISCAL YEAR a/	0.9	294,000	2.8	449,000	3.3	529,200	4.0	345,600	4.0	345,600	15.0	1,963,400
TOTAL PROJECT FUNDING	1.5	349,437	5.5	676,926	6.4	1,581,525	4.0	1,662,266	4.0	1,662,266	21.4	5,932,420
Difference: Funding - Costs b/	0.0	0	0.0	0	1.7	116,600	3.8	701,400	3.8	201,400	9.3	519,400
Total Estimated Cost Avoidance	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0

a/ Please note that funding is required for contract programming staff used to backfill IT staff working on this project. The BCP requests an additional \$229,000 in 2003-04 and \$306,800 in 2004-05 for the backfill of System Modification & Stabilization and Audit Log System.

b/ Please note that funding is required for on-going program once project is completed. The BCP requests an additional \$116,600 ongoing for pr staff in 2004-05 and \$201,400 in 2005-06 and on-going.

ADJUSTMENTS, SAVINGS AND REVENUES WORKSHEET (DOF Use Only)

Department: Board of Equalization
Project: Alternative Cigarette Tax Stamp

Date Prepared: 11/14/02

Annual Project Adjustments	FY 2002/03		FY 2003/04		FY 2004/05		FY 2005/06		FY 2006/07		Not Adjustments	
	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts
One-time Costs												
Previous Year's Baseline	0.0	0	0.9	242,000	2.8	347,000	3.3	310,600	0.0	20,000		
(A) Annual Augmentation / (Reduction)	0.9	242,000	1.9	105,000	0.5	(36,400)	(3.3)	(290,600)	0.0	(20,000)		
(B) Total One-Time Budget Actions	0.9	242,000	2.8	347,000	3.3	310,600	0.0	20,000	0.0	0	7.0	919,600
Continuing Costs												
Previous Year's Baseline	0.0	0	0.0	52,000	0.0	102,000	0.0	218,600	4.0	325,600		
(C) Annual Augmentation / (Reduction)	0.0	52,000	0.0	50,000	0.0	116,600	4.0	107,000	0.0	20,000		
(D) Total Continuing Budget Actions	0.0	52,000	0.0	102,000	0.0	218,600	4.0	325,600	4.0	345,600	8.0	1,043,800
Total Annual Project Budget Augmentation / (Reduction) [A + C]	0.9	294,000	1.9	155,000	0.5	80,200	0.7	(183,600)	0.0	0		

[A, C] Excludes Redirected Resources

Total Additional Project Funds Needed [B + D]

15.0 1,963,400

Annual Savings/Revenue Adjustments

Cost Avoidance	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0		
Increased Program Revenues		0		0		9,100,000		26,000,000		26,000,000		

Appendix A

EXISTING SYSTEM/BASELINE COST WORKSHEET

Department: Board of Equalization

Project: Alternative Cigarette Tax Stamp

All costs to be shown in whole (unrounded) dollars.

Date Prepared: 4/30/04

Continuing Information	FY 2002/03		FY 2003/04		FY 2004/05		FY 2005/06		FY 2006/07		TOTAL	
	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts
Technology Costs												
Staff (salaries & benefits)	15.8	1,220,625	15.8	1,220,625	15.8	1,220,625	15.8	1,220,625	15.8	1,220,625	79.0	6,103,125
Hardware Lease/Maintenance		0		0		0		0		0		0
Software Maintenance/Licenses		0		0		0		0		0		0
Contract Services		0		0		0		0		0		0
Data Center Services		1,836,000		1,836,000		1,836,000		1,836,000		1,836,000		9,180,000
Agency Facilities		0		0		0		0		0		0
Other		0		0		0		0		0		0
Total IT Costs	15.8	3,056,625	15.8	3,056,625	15.8	3,056,625	15.8	3,056,625	15.8	3,056,625	79.0	15,283,125
Continuing Program Costs:												
Staff	1.0	51,000	1.0	51,000	1.0	51,000	1.0	51,000	1.0	51,000	5.0	255,000
Other _1/		1,316,666		1,316,666		1,316,666		1,316,666		1,316,666		6,583,330
Total Program Costs	1.0	1,367,666	1.0	1,367,666	1.0	1,367,666	1.0	1,367,666	1.0	1,367,666	5.0	6,838,330
TOTAL EXISTING SYSTEM COSTS	16.8	4,424,291	16.8	4,424,291	16.8	4,424,291	16.8	4,424,291	16.8	4,424,291	84.0	22,121,455

1/ \$733,333 per year Meyercord Co contract to manufacture tax stamps plus \$583,333 per year B of A Contract to distribute stamps.

PROPOSED ALTERNATIVE: Project Effort to Implement SB1701 Cigarette Stamp Requirement

Date Prepared: 4/30/04

Appendix A Board of Equalization
 Department of Revenue
 Project: Alternative Cigarette Tax Stamp

All Costs Should be shown in whole (unrounded) dollars.

	FY 2002/03		FY 2003/04		FY 2004/05		FY 2005/06		FY 2006/07		TOTAL	
	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts
One-Time IT Project Costs												
Staff (Salaries & Benefits)	1.2	90,386	5.3	392,819	5.2	373,243			0.0	0	11.7	856,448
Hardware Purchase		17,031		6,512		0				0		23,543
Software Purchase/License						0				0		0
Telecommunications						0				0		0
Contract Services		0		0		0				0		0
Software Customization- a/				114,000		153,000				0		267,000
Project Management										0		0
Project Oversight (IPOC)				44,515		30,485				0		75,000
IT&V Services		0		0		0				0		0
Other Contract Services (Technical Experts)		0		105,485		119,515				0		225,000
TOTAL Contract Services		0		264,000		303,000				0		567,000
Data Center Services		0		25,000		35,000				0		60,000
Agency Facilities		0		0		0				0		0
Other		0		1,488		9,000				0		10,488
Total One-time IT Costs	1.2	107,417	5.3	689,819	5.2	720,243	0.0	0	0.0	0	11.7	1,517,479
Continuing IT Project Costs												
Staff (Salaries & Benefits)			0.0	0		0	0.2	22,200	0.2	22,200	0.4	44,400
Hardware Lease/Maintenance		0		0		0		0		0		0
Software Maintenance/Licenses		0		0		0		0		0		0
Telecommunications		0		0		3,000		3,000		3,000		9,000
Contract Services		0		0		5,562,333		11,124,666		11,124,666		27,811,665
Data Center Services		0		0		0		20,000		20,000		40,000
Agency Facilities		0		0		0		0		0		0
Other		0		0		99,000		99,000		99,000		297,000
Total Continuing IT Costs	0.0	0	0.0	0	0.0	5,664,333	0.2	11,268,866	0.2	11,268,866	0.4	28,202,065
Total Project Costs	1.2	107,417	5.3	689,819	5.2	6,384,576	0.2	11,268,866	0.2	11,268,866	12.1	29,719,544
Continuing Existing Costs												
Information Technology Staff	15.8	1,220,625	14.4	1,038,690	13.9	1,133,805	15.8	1,220,625	15.8	1,220,625	75.7	5,834,370
Other IT Costs b/		1,836,000		1,951,300		1,990,000		1,836,000		1,836,000		9,449,300
Total Continuing Existing IT Costs	15.8	3,056,625	14.4	2,989,990	13.9	3,123,805	15.8	3,056,625	15.8	3,056,625	75.7	15,283,670
Program Staff c/	1.0	51,000	1.0	51,000	2.0	116,000	3.0	130,700	3.0	130,700	10.0	479,400
Other Program Costs		1,316,666		1,316,666		658,333		0		0		3,291,665
Total Continuing Existing Program Costs	1.0	1,367,666	1.0	1,367,666	2.0	774,333	3.0	130,700	3.0	130,700	10.0	3,771,065
Total Continuing Existing Costs	16.8	4,424,291	15.4	4,357,656	15.9	3,898,138	18.8	3,187,325	18.8	3,187,325	85.7	19,054,735
TOTAL ALTERNATIVE COSTS	18.0	4,531,708	20.7	5,047,475	21.1	10,282,714	19.0	14,456,191	19.0	14,456,191	97.8	48,774,279
INCREASED REVENUES		0		0		9,386,667		28,160,000		28,160,000		65,706,667

a/ Includes half the augmentation received via 2003-04 BCP #3, as 50% of the contractor hours will be on the project, and 50% of the remaining hours will be for backfill. (See footnote b/ for backfill)

b/ Includes cost of contract programmers which will be used to backfill continuing existing IT Staff who will be doing one-time IT project development.

c/ Cost of on-going program staff to support the alternative stamp process is requested within the BCP.

ECONOMIC ANALYSIS SUMMARY

Date Prepared: 4/30/04

Department: Board of Equalization

Project: Alternative Cigarette Tax Stamp

All costs to be shown in whole (unrounded) dollars.

	FY 2002/03		FY 2003/04		FY 2004/05		FY 2005/06		FY 2006/07		TOTAL	
	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts
EXISTING SYSTEM												
Total IT Costs	15.8	3,056,625	15.8	3,056,625	15.8	3,056,625	15.8	3,056,625	15.8	3,056,625	79.0	15,283,125
Total Program Costs	1.0	1,367,666	1.0	1,367,666	1.0	1,367,666	1.0	1,367,666	1.0	1,367,666	5.0	6,838,330
Total Existing System Costs	16.8	4,424,291	16.8	4,424,291	16.8	4,424,291	16.8	4,424,291	16.8	4,424,291	84.0	22,121,455
PROPOSED ALTERNATIVE												
Project Effort to Implement SB1701 Cigarette Stamp Requirements												
Total Project Costs	1.2	107,417	5.3	689,819	5.2	6,384,576	0.2	11,268,866	0.2	11,268,866	12.1	29,719,544
Total Cont. Exist. Costs	16.8	4,424,291	15.4	4,357,656	15.9	3,898,138	18.8	3,187,325	18.8	3,187,325	85.7	19,054,735
Total Alternative Costs	18.0	4,531,708	20.7	5,047,475	21.1	10,282,714	19.0	14,456,191	19.0	14,456,191	97.8	48,774,279
COST AVOIDANCES	(1.2)	(107,417)	(3.9)	(623,184)	(4.3)	(5,858,423)	(2.2)	(10,031,900)	(2.2)	(10,031,900)	(13.8)	(26,652,824)
Increased Revenues		0		0		9,386,667		28,160,000		28,160,000		65,706,667
Net (Cost) or Benefit	(1.2)	(107,417)	(3.9)	(623,184)	(4.3)	3,528,244	(2.2)	18,128,100	(2.2)	18,128,100	(13.8)	39,053,843
Cum. Net (Cost) or Benefit	(1.2)	(107,417)	(5.1)	(730,601)	(9.4)	2,797,643	(11.6)	20,925,743	(13.8)	39,053,843		
ALTERNATIVE #1												
Total Project Costs	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0
Total Cont. Exist. Costs	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0
Total Alternative Costs	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0
COST AVOIDANCES	16.8	4,424,291	16.8	4,424,291	16.8	4,424,291	16.8	4,424,291	16.8	4,424,291	84.0	22,121,455
Increased Revenues		0		0		0		0		0		0
Net (Cost) or Benefit	16.8	4,424,291	16.8	4,424,291	16.8	4,424,291	16.8	4,424,291	16.8	4,424,291	84.0	22,121,455
Cum. Net (Cost) or Benefit	16.8	4,424,291	33.6	8,848,582	50.4	13,272,873	67.2	17,697,164	84.0	22,121,455		
ALTERNATIVE #2												
Total Project Costs	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0
Total Cont. Exist. Costs	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0
Total Alternative Costs	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0
COST AVOIDANCES	16.8	4,424,291	16.8	4,424,291	16.8	4,424,291	16.8	4,424,291	16.8	4,424,291	84.0	22,121,455
Increased Revenues		0		0		0		0		0		0
Net (Cost) or Benefit	16.8	4,424,291	16.8	4,424,291	16.8	4,424,291	16.8	4,424,291	16.8	4,424,291	84.0	22,121,455
Cum. Net (Cost) or Benefit	16.8	4,424,291	33.6	8,848,582	50.4	13,272,873	67.2	17,697,164	84.0	22,121,455		

Appendix A

PROJECT FUNDING PLAN

Department: Board of Equalization

All Costs to be in whole (unrounded) dollars

Date Prepared: 4/30/04

Project: Alternative Cigarette Tax Stamp

	FY 2002/03		FY 2003/04		FY 2004/05		FY 2005/06		FY 2006/07		TOTALS	
	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts
TOTAL PROJECT COSTS	1.2	107,417	5.3	689,819	5.2	6,384,576	0.2	11,268,866	0.2	11,268,866	12.1	29,719,544
RESOURCES TO BE REDIRECTED												
Staff (Includes redirected program staff)	1.1	80,035	4.0	298,808	4.0	286,424	0.0	0	0.0	0	9.1	665,267
Funds:												
Existing System (Incl. redirected IT staff)	0.1	10,351	1.3	94,011	1.2	693,352		1,316,666		1,316,666		3,431,046
Other Fund Sources								0		0		0
TOTAL REDIRECTED RESOURCES	1.2	90,386	5.3	392,819	5.2	979,776	0.0	1,316,666	0.0	1,316,666	11.7	4,096,313
ADDITIONAL PROJECT FUNDING NEEDED												
One-Time Project Costs	0.0	17,031	0.0	297,000	0.0	373,300	0.0	20,000	0.0	0	0.0	707,331
Continuing Project Costs		0		0	0.5	5,049,900	1.2	9,970,600	1.2	9,990,600	2.9	25,011,100
TOTAL ADDITIONAL PROJECT FUNDS NEEDED BY FISCAL YEAR a/	0.0	17,031	0.0	297,000	0.5	5,423,200	1.2	9,990,600	1.2	9,990,600	2.9	25,718,431
TOTAL PROJECT FUNDING	1.2	107,417	5.3	689,819	5.7	6,402,976	1.2	11,307,266	1.2	11,307,266	14.6	29,814,744
Difference: Funding - Costs b/	0.0	0	0.0	0	0.5	18,400	1.0	38,400	1.0	38,400	2.5	95,200
Total Estimated Cost Avoidance	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0

a/ Please note that funding is required for contract programming staff used to backfill IT staff working on this project. The 2003-04 BCP #3 approved an additional \$115,300 in 2003-04 and \$154,000 in 2004-05 for the backfill of System Modification & Stabilization and Audit Log System.

b/ Reflects on-going program cost of remaining Tax Tech II (2003-04 BCP#3) not reduced in Section 4.10 reduction. The program will continue to fund
Version 1.2 (09/2002) Printed on 5/3/2004

one additional Tax Tech III through redirection to continue program work (the cost or funding of the TIII is not a project cost or augmentation).

ADJUSTMENTS, SAVINGS AND REVENUES WORKSHEET (DOF Use Only)

Department: Board of Equalization

Project: Alternative Cigarette Tax Stamp

Date Prepared: 4/30/04

Annual Project Adjustments	FY 2002/03		FY 2003/04		FY 2004/05		FY 2005/06		FY 2006/07		Net Adjustments	
	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts
One-time Costs												
Previous Year's Baseline	0.0	0	0.0	17,031	0.0	297,000	0.0	373,300	0.0	20,000		
(A) Annual Augmentation /(Reduction)	0.0	17,031	0.0	279,969	0.0	76,300	0.0	(353,300)	0.0	(20,000)		
(B) Total One-Time Budget Actions	0.0	17,031	0.0	297,000	0.0	373,300	0.0	20,000	0.0	0	0.0	707,331
Continuing Costs												
Previous Year's Baseline	0.0	0	0.0	0	0.0	0	0.5	5,049,900	1.2	9,970,600		
(C) Annual Augmentation /(Reduction)	0.0	0	0.0	0	0.5	5,049,900	0.7	4,920,700	0.0	20,000		
(D) Total Continuing Budget Actions	0.0	0	0.0	0	0.5	5,049,900	1.2	9,970,600	1.2	9,990,600	2.9	25,011,100
Total Annual Project Budget Augmentation /(Reduction) [A + C]	0.0	17,031	0.0	279,969	0.5	5,126,200	0.7	4,567,400	0.0	0		

[A, C] Excludes Redirected Resources

Total Additional Project Funds Needed [B + D]

2.9 25,718,431

Annual Savings/Revenue Adjustments

Cost Avoidance	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0		
Increased Program Revenues						9,386,667		28,160,000		28,160,000		
Version 1.2 (09/2003)												

Printed on 5/2/2004

Reconciliation of FSR and SPR Fiscal Displays

Attachment 6

Alternative Cigarette Stamp Tax Project		SPR			
	2002/03 to 2006/07 (5 years)	Adjustment #1	Adjustment #2	Adjustment #3	2002/03 to 2006/07 (5 years)
Categories	FSR	Increased Cost of Stamp Technology	Change in Staffing/ Resources	BOE Selling Irregular Stamps	SPR
Information Technology Costs					
One-time					
Staff	\$888,288		(\$31,840)		\$856,448
Hardware	\$54,000		(\$30,457)		\$23,543
Telecommunications	\$3,000		(\$3,000)		\$0
Software	\$0				\$0
Software Customization	\$0		\$267,000		\$267,000
Project Management	\$0				\$0
Project Oversight	\$0		\$75,000		\$75,000
Other Contract Services	\$375,000		(\$150,000)		\$225,000
Total Contract Services	\$375,000	\$0	\$192,000	\$0	\$567,000
Data Center Services	\$85,000		(\$25,000)		\$60,000
Agency Facilities	\$0				\$0
Other	\$40,000		(\$29,512)		\$10,488
Subtotal, One-time	\$1,445,288	\$0	\$72,191	\$0	\$1,517,479
					\$0
Continuing					
					\$0
Staff	\$44,400				\$44,400
Hardware	\$0				\$0
Software	\$0				\$0
Telecommunications	\$14,000		(\$5,000)		\$9,000
Contract Services	\$3,423,332	\$24,520,000	(\$131,667)		\$27,811,665
Data Center Services	\$40,000				\$40,000
Agency Facilities	\$0				\$0
Other	\$446,000		(\$149,000)		\$297,000
Subtotal, On-going	\$3,967,732	\$24,520,000	(\$285,667)	\$0	\$28,202,065
					\$0
Total Project Costs	\$5,413,020	\$24,520,000	(\$213,476)	\$0	\$29,719,544
Continuing Existing Costs					\$0
Program Staff added	\$519,400		(\$424,200)		\$95,200
Total Project Funding	\$5,932,420	\$24,520,000	(\$637,676)		\$29,814,744
Cost Savings / Avoidances	\$0				\$0
Revenue	\$61,100,000	\$4,606,667			\$65,706,667
Total Projected Benefits	\$61,100,000	\$4,606,667			\$65,706,667

Project Schedule

Project Phase	Task	Est./Actual Start	Est./Actual Completion	Status
Concept	BCP Approval	9/13/02	2/10/03	Completed
	FSR Approval	11/12/02	12/2/02	Completed
Project Management Planning	Develop Change Mgmt. Plan	9/5/03	12/23/03	Completed
	Draft Charter	3/22/02	8/22/02	Completed
	Develop Communications Mgmt. Plan	6/2/03	1/9/04	Completed
	Develop Cost Mgmt. Plan/Tracking	1/7/04	5/31/04	In Process
	Develop Issue Mgmt. Plan	12/15/03	2/27/04	Completed
	Draft Organization Chart	8/18/03	1/16/04	Completed
	Develop Quality Assurance Plan	5/28/03	1/13/04	Completed
	Develop Risk Mgmt. Plan	11/12/03	2/27/04	Completed
	Develop Resource Plan	12/18/03	6/30/04	In Process
	Develop Schedule Mgmt. Plan	11/17/03	2/27/04	Completed
	Develop Scope Statement	7/24/03	12/23/03	Completed
	Draft Team Roster	6/2/03	6/3/03	Completed
	Develop Work Schedule	5/8/03	6/30/04	In Process
Stamp System Procurement	Develop Stamp Requirements	1/2/03	4/15/03	Completed
	Develop Machine Applicator and Ancillary Equip. Requirements	1/2/03	7/30/03	Completed
	Develop Invitation for Bid (IFB)	4/16/03	12/15/03	Completed
	Board Member Contract Approval	2/18/04	2/18/04	Deferred
Second Stamp System Procurement	Finance Letter	4/1/04	4/8/04	Completed
	Special Project Report	4/19/04	5/4/04	Completed
	Rewrite IFB Requirements	2/18/04	4/30/04	Completed
	Evaluate Bid Proposals	6/11/04	6/25/04	Not Started
	Board Member Contract Approval	6/30/04	6/30/04	Not Started
Stamp Transaction System	Develop Software Requirement Specs Document	7/30/03	1/21/04	Completed
	Develop System Design Document	1/5/04	8/19/04	In Process
	System Construction	4/30/04	11/17/04	In Process
	Test and Implement Stamp Transaction System	1/5/04	12/31/04	In Process
Training/Public Relations	Develop Training Plan	7/20/04	8/23/04	Not Started
	Deliver Training	9/8/04	11/8/04	Not Started
	Develop Procedure (Desk) Manuals	8/9/04	9/15/04	Not Started
	Notify Industry of Cigarette Program Changes	7/5/04	12/6/04	Not Started
Implementation/Produ ction	Develop Implementation Plan	6/15/04	7/16/04	Not Started
	Start Production	12/3/04	1/1/05	Not Started
Maintenance	Project Closeout	1/10/05	1/14/05	Not Started
	Document Lessons Learned	2/28/05	3/3/05	Not Started
	Prepare PIER	3/11/05	9/15/05	Not Started